

From: Anson, Mark
Sent: Friday, December 09, 2005 3:34 PM
To: Pinkos, Patricia; Rhewseni@wilshire.com
Cc: Stausboll, Anne
Subject: RE: Commodities

Hi Pat & Roz:

I will take a quick stab at these questions so you can have some of my input.

1. Good point--we should look at the incremental return and risk on the total fund. The GSCI and DJ-AIG indexes have sufficient data going back several years to provide an intelligent analysis. In fact, I think that Pat and her team may have already done this work.

2. I personally, don't think that there is such a thing as over-diversification. But, I suspect what Roz means is: are there sufficient benefits to this to make it worth our while to expense resources; and further, are the diversification benefits sufficient worthwhile so that it is beneficial to pull investment assets away from other classes? I think the answer is yes on both parts. Commodities have consistently been positively correlated with inflation and negatively correlated with stocks and bonds--this makes for great inflation protection as well as for good diversification benefits.

Regarding hedge funds, as an example, hedge funds are a trading strategy--not an asset class. Conversely, commodities are an asset class, not a trading strategy. We use hedge funds to add alpha, not beta diversification. Conversely, we would use commodities to add beta diversification, not alpha generation.

3. Capacity in commodity futures is huge, this is not an issue. The incremental benefit can be answered in #1 above taking into account not only the risk and return profile of commodities but also their diversification properties vs. stocks and bonds.

4. Actually, I see the problem the reverse of what Roz has proposed. She's right, AIM has generated more cash than they need right now. But I see this as an opportunity for moments of excess cash while also diversifying the portfolio. While the AIM portfolio might not be able to take full advantage of the commodities diversification, global equity and fixed income can.

I look forward to discussing this more.

Thanks.

Mark